

Tongda (698 HK)

Healthier balance sheet and Android momentum to drive profitability recovery

We recently spoke to Tongda's mgmt., and with Apple biz disposal and business reorganisation in 1H24E, mgmt. reiterated their positive view on Android demand recovery, major customers' share gains (Xiaomi, Honor/Huawei), household & sports goods demand and cooling modules for AI servers to drive growth in FY24-25E. We lower FY24/25E EPS by 1-9% to reflect the business disposal, a lower GPM and debt repayment. Our new TP of HK\$0.14 is based on the same 6.0x FY24E P/E. Trading at 3.0x/2.5x FY24/25E P/E (lower than 1sd below 10-year hist. avg.), the stock offers attractive risk/reward in our view. Maintain BUY.

■ **2024/25 outlook: Handset casing recovery and household & sports goods as major growth drivers.** For 2024, mgmt. expects: 1) Handset casing: 15%+ YoY with a stable GPM driven by major Android clients (Xiaomi, Honor/Huawei) and spec upgrades for new model launches; 2) Smart electrical appliances: HKD600mn in sales thanks to favourable policy and market demand improvement; 3) Network communication: HKD600mn in sales from router demand given WiFi-7 upgrades in Paris Olympic Games. 4) Household and sports goods: 13%+ YoY growth with a better GPM (vs. 27.3% in FY23) driven by overseas customers' inventory restocking, customer order wins and new factories' production ramp-up. Looking ahead to 2025, mgmt. expects 15-20% revenue upside for handset casing business, 25% YoY for household & sports goods and 10%/10% YoY for smart electrical appliance/network communication segments. Overall, after business disposal, we forecast non-Apple business will grow 34% YoY in FY24E, and overall revenue decline will narrow to -8% YoY in FY24E (vs. -18% in FY23) with net margin improving to 3.8%/4.3% in FY24/25E.

■ **Focus on balance sheet and profitability improvement after biz disposal.** FY23 revenue decline of 18% YoY was mainly dragged by sluggish smartphone demand on macro weakness and disposal of auto interior components and aluminium battery components businesses. GPM dropped 10.1ppts to 5.3% on higher costs (depreciation, utilities and wages), increase in inventory provision and one-off charges from the shutdown of loss-making factories. In addition, Tongda announced disposal of Apple business at end-2023, and we think net proceeds of HK\$1.5bn will improve its balance sheet and overall profitability. We are positive on its non-apple customers such as Honor/Huawei and Xiaomi to drive handset casing business growth going forward.

■ **Maintain BUY.** We lower FY24/25E EPS estimates by 1-9% to reflect the business disposal, a lower GPM and debt repayment. Our new TP of HK\$0.14 is based on the same 6.0x FY24E P/E. Trading at 3.0x/2.5x FY24/25E P/E (lower than 1sd below 10-year hist. avg.), the stock has attractive risk/reward in our view. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	7,559	6,522	6,009	6,487	6,848
YoY growth (%)	(19.9)	(13.7)	(7.9)	7.9	5.6
Net profit (HK\$ mn)	137.3	(1,229.7)	227.3	277.9	324.8
YoY growth (%)	(39.8)	na	na	22.2	16.9
EPS (Reported) (HK\$ cents)	1.41	(12.64)	2.34	2.86	3.34
YoY growth (%)	(51.2)	na	na	22.2	16.9
Consensus EPS (HK\$ cents)	0.00	0.00	2.60	2.11	5.00
P/E (x)	5.0	ns	3.0	2.5	2.1
P/B (x)	0.1	0.1	0.1	0.1	0.1
Yield (%)	0.0	0.0	2.6	3.2	3.8
ROE (%)	1.7	(16.8)	3.2	3.8	4.3
Net gearing (%)	23.4	25.5	(17.8)	(36.6)	(54.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$0.14
(Previous TP)	HK\$0.155
Up/Downside	97.5%
Current Price	HK\$0.07

China Technology

Alex NG

(852) 3900 0881

alexng@cmbi.com.hk

Hanqing LI

lihanqing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	690.0
Avg 3 mths t/o (HK\$ mn)	0.8
52w High/Low (HK\$)	0.16/0.07
Total Issued Shares (mn)	9719.0

Source: FactSet

Shareholding Structure

Landmark Worldwide Holdings Ltd	24.4%
Wang Ya Nan	7.8%

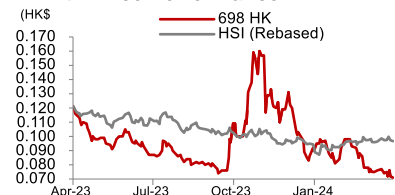
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.0%	-8.3%
3-mth	-22.8%	-24.6%
6-mth	-26.0%	-20.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1. Positive on earnings recovery in FY24-25E after disposal of Apple business – 2 Jan 2024 ([link](#))
2. Positive on Android recovery, Apple share gain and non-smartphone biz order wins- 11 Sep 2023 ([link](#))
3. 1H23 Preview: weak revenue amid industry headwinds; expect smartphone recovery in 2H23E– 4 Aug 2023 ([link](#))

Earnings Revision

Figure 1: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,009	6,487	6,848	6,215	6,458	na	-3%	0%	na
Gross profit	971	1,078	1,164	1,107	1,162	na	-12%	-7%	na
Operating profit	202	248	294	243	278	na	-17%	-11%	na
Net profit	227	278	325	251	281	na	-9%	-1%	na
EPS (HK\$)	0.023	0.029	0.033	0.026	0.03	na	-9%	-1%	na
Gross margin	16.2%	16.6%	17.0%	17.8%	18.0%	na	-1.6 ppt	-1.4 ppt	na
Operating margin	3.4%	3.8%	4.3%	3.9%	4.3%	na	-0.5 ppt	-0.5 ppt	na
Net Margin	3.8%	4.3%	4.7%	4.0%	4.4%	na	-0.3 ppt	-0.1 ppt	na

Source: Company data, CMBIGM estimates

Figure 2: CMBI estimates vs consensus

(HK\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,009	6,487	6,848	na	na	na	na	na	na
Gross profit	971	1,078	1,164	na	na	na	na	na	na
Operating profit	202	248	294	na	na	na	na	na	na
Net profit	227	278	325	253	281	na	-10%	-1%	na
EPS (HK\$)	0.023	0.029	0.033	0.026	0.029	na	-10%	-2%	na
Gross margin	16.2%	16.6%	17.0%	17.8%	18.0%	na	-1.6 ppt	-1.4 ppt	na
Operating margin	3.4%	3.8%	4.3%	na	na	na	na	na	na
Net Margin	3.8%	4.3%	4.7%	na	na	na	na	na	na

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Revenue breakdown

HK\$ mn	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Handsets	5,637	1,640	1,931	3,571	3,710	3,404
...YoY	6%	-22%	-30%	-37%	4%	-8%
Metal	333	178	266	444	570	444
...YoY	-21%	32%	34%	33%	28%	-22%
Non-metal	2,195	1,110	1,665	2,775	3,140	2,960
...YoY	-18%	21%	31%	26%	13%	-6%
Apple	2,309	352	-	352	-	-
...YoY	-7%	-66%	-	-85%	-	-
Electrical appliances	-	100	150	250	325	374
...YoY	-	-	-	-	30%	15%
Household goods	885	486	752	1,238	1,672	2,173
...YoY	-19%	10%	10%	40%	35%	30%
Network comm.	772	600	-	600	780	897
...YoY	-32%	107%	-100%	-22%	30%	15%
Total	6,522	2,926	3,084	6,009	6,487	6,848
...YoY	-14%	3%	-22%	-8%	8%	6%

Source: Company data, CMBIGM estimates

Note: revenue for electrical appliances business not available in FY23 because the company reorganized and combined this business segment into Consumer Electronics Structural Components business.

Figure 4: P&L forecast

HK\$ mn	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Revenue	6,522	2,926	3,084	6,009	6,487	6,848
...YoY	-13.7%	3.3%	-21.6%	-7.9%	7.9%	5.6%
Cost of sales	-6,176	-2,432	-2,606	-5,038	-5,409	-5,684
Gross profit	346	493	478	971	1,078	1,164
GPM (%)	5.3%	16.9%	15.5%	16.2%	16.6%	17.0%
...YoY	-75.2%	-14.1%	-309.5%	180.9%	11.0%	8.0%
 Selling Exp	 (82)	 (18)	 (19)	 (36)	 (39)	 (41)
...% of rev	-1.3%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%
R&D	0	(178)	(188)	(367)	(396)	(411)
...% of rev	0.0%	-6.1%	-6.1%	-6.1%	-6.1%	-6.0%
Operating profit	(1094)	119	83	202	248	294
OPM (%)	-16.8%	4.1%	2.7%	3.4%	3.8%	4.3%
...YoY	-296.4%	57.5%	-107.1%	-118.5%	22.7%	18.9%
 Net profit	 -1,230	 78	 149	 227	 278	 325
NPM (%)	-18.9%	2.7%	4.8%	3.8%	4.3%	4.7%
...YoY	-995.7%	303.9%	-111.9%	-	22.2%	16.9%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$0.14

Our new TP of HK\$0.14 is based on the same 6.0x FY24E P/E. We think the stock's current valuation of 3.0x/2.5x FY24/25E P/E is fairly attractive (well below 1sd below hist. P/E), as we expect earnings recovery and new business ramp-up in FY24-25E.

Figure 5: Peers valuation

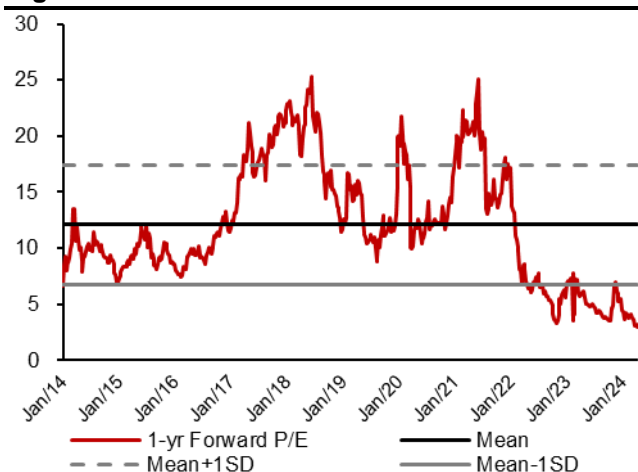
Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
HK-listed												
Tongda	698 HK	BUY	91	0.07	0.14	92%	NA	3.0	0.1	0.1	-16.8	3.2
BYDE	285 HK	BUY	7,211	25.05	46.5	86%	12.6	9.1	1.7	2.6	13.7	29.0
Ju Teng	3336 HK	NR	164	1.07	NA	NA	-	-	-	-	-	-
FIH	2038 HK	NR	685	0.68	NA	NA	-	-	-	-	-	-
Average							12.6	6.1	0.9	1.4	-1.6	16.1
China-listed												
Everwin	300115 CH	NR	1,632	9.81	NA	NA	68.6	18.1	2.0	1.8	2.2	10.3
Janus	300083 CH	NR	1,297	5.57	NA	NA	30.8	19.3	1.9	1.8	6.0	8.8
Average							49.7	18.7	2.0	1.8	4.1	9.5
Overseas-listed												
Foxconn	2354 TT	NR	2,390	55.00	NA	NA	12.7	10.2	0.5	0.5	5.8	7.0
Catcher	2474 TT	NR	4,326	206.50	NA	NA	11.7	16.2	0.8	-	7.2	5.5
Average							12.2	13.2	0.7	0.5	6.5	6.2

Source: Bloomberg, CMBIGM estimates

Risks

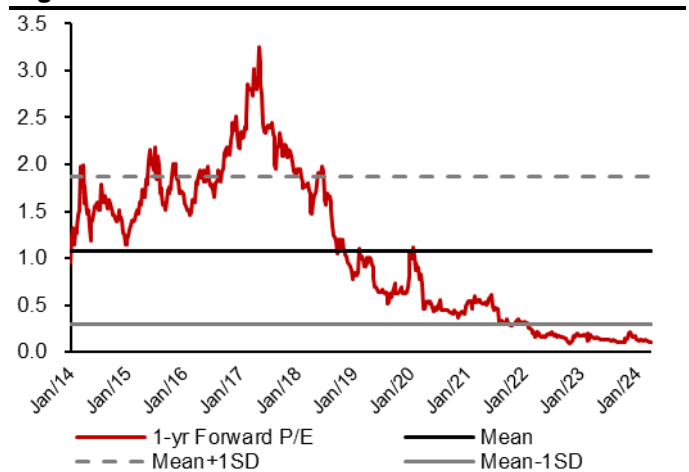
Key downside risks include slower-than-expected android demand recovery, slow production ramp-up at new factories, and weaker-than-expected new order wins.

Figure 6: 12M forward P/E band



Source: Company data, CMBIGM estimates

Figure 7: 12M forward P/B band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	9,433	7,559	6,522	6,009	6,487	6,848
Cost of goods sold	(7,930)	(6,167)	(6,176)	(5,038)	(5,409)	(5,684)
Gross profit	1,503	1,392	346	971	1,078	1,164
Operating expenses	(1,163)	(1,175)	(1,292)	(733)	(791)	(829)
Selling expense	(57)	(53)	(82)	(36)	(39)	(41)
Admin expense	(1,106)	(1,122)	(1,211)	(697)	(752)	(788)
SG&A expense	0	0	0	0	0	0
Others	(32)	(62)	(147)	(36)	(39)	(41)
Operating profit	308	557	(1,094)	202	248	294
EBITDA	375	2,217	552	1,648	1,723	1,799
Other income/expense	69	71	138	106	117	124
Others	(74)	(138)	(197)	(50)	(50)	(50)
Pre-tax profit	303	491	(1,153)	258	315	368
Income tax	(51)	(67)	(52)	(26)	(31)	(37)
Minority interest	15	14	25	5	6	7
Net profit	228	137	(1,230)	227	278	325
Adjusted net profit	228	137	(1,230)	227	278	325

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	9,354	7,993	8,034	9,430	11,394	12,885
Cash & equivalents	1,366	1,195	1,160	2,726	4,230	5,793
Account receivables	3,317	2,159	1,907	1,837	2,204	2,063
Inventories	3,177	2,351	1,267	1,168	1,260	1,331
Prepayment	523	653	623	623	623	623
Other current assets	971	1,634	3,076	3,076	3,076	3,076
Non-current assets	7,402	6,236	5,269	2,473	1,198	(107)
PP&E	6,658	5,598	4,552	1,756	481	(824)
Other non-current assets	744	638	717	717	717	717
Total assets	16,755	14,229	13,303	11,903	12,592	12,778
Current liabilities	7,720	5,444	5,073	4,003	4,411	4,269
Short-term borrowings	2,931	1,928	1,878	921	954	993
Account payables	3,772	2,531	1,837	1,724	2,099	1,918
Other current liabilities	1,016	986	1,358	1,358	1,358	1,358
Non-current liabilities	814	1,154	1,226	683	702	724
Long-term borrowings	639	1,051	1,065	522	541	563
Other non-current liabilities	175	103	161	161	161	161
Total liabilities	8,534	6,598	6,299	4,686	5,113	4,994
Share capital	97	97	97	97	97	97
Other reserves	8,063	7,466	6,585	6,795	7,050	7,349
Total shareholders equity	8,221	7,631	7,003	7,217	7,479	7,784
Minority interest	61	68	321	325	331	338
Total equity and liabilities	16,755	14,229	13,303	11,903	12,592	12,778

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	303	491	(1,153)	258	315	368
Depreciation & amortization	67	1,660	1,645	1,446	1,475	1,505
Change in working capital	(731)	279	643	56	(85)	(109)
Others	769	(1,686)	(1,128)	(41)	(67)	(92)
Net cash from operations	408	743	7	1,719	1,639	1,672
Investing						
Capital expenditure	(900)	(600)	(600)	(150)	(200)	(200)
Others	(320)	251	225	1,515	35	55
Net cash from investing	(1,220)	(349)	(375)	1,365	(165)	(145)
Financing						
Dividend paid	0	0	0	(18)	(22)	(26)
Net borrowings	43	(591)	(35)	(1,500)	52	61
Proceeds from share issues	752	0	0	0	0	0
Others	(98)	277	710	0	0	0
Net cash from financing	696	(314)	675	(1,518)	30	35
Net change in cash						
Cash at the beginning of the year	1,353	1,366	1,195	1,160	2,726	4,230
Exchange difference	129	(251)	(341)	0	0	0
Cash at the end of the year	1,366	1,195	1,160	2,726	4,230	5,793
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	(3.3%)	(19.9%)	(13.7%)	(7.9%)	7.9%	5.6%
Gross profit	(12.1%)	(7.4%)	(75.2%)	180.9%	11.0%	8.0%
Operating profit	(38.7%)	80.8%	na	na	22.7%	18.9%
EBITDA	(66.6%)	491.3%	(75.1%)	198.8%	4.6%	4.4%
Net profit	(35.1%)	(39.8%)	na	na	22.2%	16.9%
Adj. net profit	(35.1%)	(39.8%)	na	na	22.2%	16.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	15.9%	18.4%	5.3%	16.2%	16.6%	17.0%
Operating margin	3.3%	7.4%	(16.8%)	3.4%	3.8%	4.3%
EBITDA margin	4.0%	29.3%	8.5%	27.4%	26.6%	26.3%
Adj. net profit margin	2.4%	1.8%	(18.9%)	3.8%	4.3%	4.7%
Return on equity (ROE)	3.1%	1.7%	(16.8%)	3.2%	3.8%	4.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.3	0.2	0.3	(0.2)	(0.4)	(0.5)
Current ratio (x)	1.2	1.5	1.6	2.4	2.6	3.0
Receivable turnover days	122.1	132.2	113.8	113.7	113.7	113.7
Inventory turnover days	123.8	163.6	106.9	88.2	81.9	83.2
Payable turnover days	160.6	186.5	129.1	129.0	129.0	129.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	2.5	5.0	ns	3.0	2.5	2.1
P/B	0.1	0.1	0.1	0.1	0.1	0.1
Div yield (%)	0.0	0.0	0.0	2.6	3.2	3.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.